

Clause 2 in Report No. 3 of the Audit Committee was adopted, without amendment, by the Council of The Regional Municipality of York at its meeting held on October 20, 2016.

2

Audit Services Branch Report

Audit Committee recommends adoption of the following recommendation contained in the report dated September 26, 2016 from the Director, Audit Services:

1. This report be received for information.
- 

Report dated September 26, 2016 from the Director, Audit Services now follows:

1. Recommendations

It is recommended that Council receive this report for information.

2. Purpose

This report provides an update on the activities of the Audit Services Branch since the last Audit Committee meeting.

The follow-up audit report, Attachment 4, tables C and D are in private as the original reports to Audit Committee were in private as they dealt with the security of property of the Region.

3. Background

On October 11, 2000, the Audit Committee approved the development of the Audit Services function through the report of the Chief Administrative Officer. The Audit Committee Charter indicates the Audit Committee is to meet at least twice a year. In practice, the Audit Committee usually meets three times a year to receive updates on the activities of the Audit Services Branch.

#### 4. Analysis and Implications

##### Audit Plan Execution

The Audit Services Branch has been actively executing the approved 2015-2018 Four Year Audit Plan and other consulting engagements. A summary of the activities since the previous Audit Committee meeting is outlined in Attachment 1.

##### Audit Reports Issued

The audit reports issued since the last Audit Committee meeting are:

- Community and Health Services – Housing Capital Repairs Audit Report (Attachment 2)
- Environmental Services – Material Recovery Facility- Contract Compliance Audit Report (Attachment 3)
- Outstanding Audit Recommendations Follow Up Audit Report (Attachment 4)

#### 5. Financial Implications

None

#### 6. Local Municipal Impact

None

#### 7. Conclusion

A follow up of outstanding audit recommendations for audit reports issued prior to August 31, 2016 indicates that management remains cognisant and active in implementing Audit Services recommendations.

Audit Services continues to work with Region management at all levels to provide them with an independent, objective assurance and consulting activity designed to add value and improve the Region's operations. Audit Services does this by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes through guidance provided by the *International Standards for the Professional Practice of Internal Auditing*.

## Audit Services Branch Report

For more information on this report, please contact Paul Duggan, Director, Audit Services at 1-877-464-9675 ext. 71205.

The Senior Management Group has reviewed this report.

September 26, 2016

### Attachments (4)

1. Audit Services Branch Activities
2. Community and Health Services – Housing Capital Repairs Audit Report
3. Environmental Services – Material Recovery Facility- Contract Compliance Audit Report
4. Outstanding Audit Recommendations Follow Up Audit Report

Accessible formats or communication supports are available upon request.

York Region  
Audit Services Branch Activities

Project Name	Status
1. Environmental Services – Material Recovery Facility - Contract Audit Report	➤ Completed
2. Community & Health Services – Housing Capital Repairs	➤ Completed
3. Follow-up of Outstanding Audit Reports	➤ Completed
4. Management Request – Review of IT Licensing/Contracts	➤ In progress
5. Transportation Services – Contract Compliance Audit	➤ In progress
6. Corporate Services – Physical Security Audit	➤ In progress
7. Environmental Services – Capital Project Review	➤ In progress
8. Audit Services – Software Upgrade Project	➤ In progress
9. Forensic Investigations	➤ In progress
10. Steering Committee – HRIMS and Payroll Review	➤ Advisory role
11. ITS Governance – Portfolio Management Committee	➤ Advisory role
12. York Telecom Network – Governance Review	➤ Advisory role
13. Continuous Control Monitoring Project	➤ Ongoing
14. Audit Services for the Audit Services Memorandum of Understanding for local municipalities	➤ Ongoing



***Community & Health Services – Housing  
Capital Repairs Audit***

***July 2016***

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## 1.0 Management Summary

Audit Services has completed a Capital Repairs Audit for the Region's Housing Branch within the Community and Health Services Department. The Audit included a review of two third party owner operated housing provider capital repair programs; the loan program and the provincial flow through grant money for the Social Housing Electricity Efficiency Program (SHEEP – suggest it be in all caps throughout the document). The focus of our review was to determine whether controls are in place to ensure that the issuance of funds through the loan program to third party owner operated housing providers for capital repair work are properly executed, managed and tracked including annual interest calculated, with adequate review/oversight of funds spent and compliance with agreement terms and conditions. The second part of the audit was to determine if controls are in place and adequately designed over the administration of the provincial flow through grant money for Sheep to ensure the proper allocation of funds, management, and oversight of work completed.

Our audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

The scope of the audit included interviews with Housing Branch management and staff, detailed review of related policies/procedures, executed agreements, applicable council reports, all related program documentation, and detailed testing of a select sample of 2014/2015 capital repair loans issued to third party housing providers, including on site observations and review of the capital repair work completed.

Based on the work Audit Services performed, it was concluded that overall the Region is managing the capital repair loan program, including issuance of funds, review and on-going oversight of money spent, however opportunities for strengthening internal controls over loan program administration and agreement compliance were noted and discussed with the appropriate management.

Furthermore, based on the work Audit Services performed, it was concluded that overall the Region is managing the Provincial flow through grant program Sheep, however opportunities for strengthening internal controls over the program administration and reporting of contract compliance requirements were noted and discussed with the appropriate management. Our recommendations have been provided in the body of the report.

Should the reader have any questions or require a more detailed understanding of the risk assessment and sampling decisions made during this audit, please contact the Director, Audit Services.

Audit Services would like to thank the Housing Services management and staff for their cooperation and assistance provided during the audit.

## 2.0 Introduction

The Region administers and funds subsidized housing in all nine area municipalities within York Region. The Housing Services Branch administers approximately 6,000 social housing units through 44 independent non-profit and cooperative housing providers and 36 Housing York Inc. buildings. Subsidized housing providers are responsible for the day to day operation of their buildings, as well as various administrative duties delegated to them by the Region.

Housing providers are required to contribute a mandated portion of their annual revenues into a reserve funds for capital repairs. Typically social housing programs do not provide enough annual funding to enable providers to set aside adequate funds to properly maintain their buildings for the long term. By providing funding through secured loans to the housing providers allows them to complete the capital repairs necessary to maintain the buildings and also extend the program obligations and the Regions long term capacity to meet service level standards. Housing providers who participate in the capital repair loan program are obliged to continue to participate in the social housing program until mortgages are discharged. Housing providers who have previously received additional subsidy funds (non-interest bearing loans) convert to a secured loan once the funds issued reach the \$500,000 maximum.

The Region has in the past and continues to qualify and receive government funding to support retrofits for social housing. On February 12, 2016, the Ontario Government announced a \$92 million investment to support green energy retrofits for social housing. Of this amount, \$10 million is dedicated to the Social Housing Electricity Efficiency Program (Sheep) for electrically-heated single family dwellings which include townhouses. On March 30, 2016, the Ministry of Municipal Affairs and Housing announced that the Region had been selected to receive funding allocation of \$768,123 under Sheep.



## 3.0 Objectives and Scope

### AUDIT OBJECTIVES

The main objectives of this engagement were to ensure:

- Controls are in place to ensure that the issuance of funds through the loan program to third party owner operated housing providers for capital repairs is properly managed and tracked, with adequate review and oversight of funds spent.
- Funds issued through the loan program for third party owner operated housing providers capital repairs are used as originally agreed upon and that value is obtained.
- The internal process for administering the provincial flow through grant money for Sheep (Social Housing Electricity Efficiency Program) is adequately designed with controls in place to ensure proper allocation of funds, management, and oversight of work completed.

### AUDIT SCOPE

The audit objectives were accomplished through:

1. Interviews with appropriate personnel.
2. Review of policies/procedures, and applicable regulatory requirements.
3. Detailed testing of a select sample of 2014/2015 funds issued/loaned to third party housing providers.
4. Onsite observation and testing at a select sample of third party owner operated housing facilities.
5. Review and testing of other applicable/related documentation.

## 4.0 Detailed Observations

### 4.1 Non-compliance – Loan Agreement

#### Observation

The following non-compliance issues were noted during our detailed review of the current loan agreements in place;

- The loan agreement schedule “C” Annual Compliance Certificate of Borrower could not be located for any of the 5 active loan agreements. Section 9 of the loan agreement entitled “Covenants of Borrower” requires *“an annual compliance certificate substantially in the form attached as Schedule C by March 31<sup>st</sup> of each loan year under the loan certifying compliance with this agreement”*. Based on discussions with the Manager Housing Strategy & Program Delivery, this form has never been completed for the 5 loans.
- The Promissory Note Schedule “A” of the loan agreement was not signed for the 5 loan agreements. Section 5.1 Recordation states that *“all advances made by lender and all repayments of the principal and interest by borrower shall be recorded by the Lender and endorsed by an Officer of the borrower in the form of Schedule A, Promissory Note”*. In addition, section 6 Conditions Precedent states *“that the availability of the loan is conditional upon the receipt by lender of the promissory note, duly executed and delivered”*. Based on discussions with the Manager of Housing Strategy & Program Delivery, the promissory notes were not originally signed and have not been updated for subsequent advances. Although this does not void or impact the repayment or commitment of the borrower, it is a contract requirement that ensures the housing providers are fully aware of the repayment terms and conditions.

#### Recommendation

Management should review the contract requirements and ensure both schedule “C” Annual Compliance Certificate of Borrower and Schedule “A” Promissory Note is completed. In addition, management should implement a process to ensure these and other contract requirements are completed and in line with the contract terms and conditions. *Refer to issue 4.3 Policies & Procedures – Loan Program.*

#### Management Response

Agreed. As part of the subsidy program requirements set out in the *Housing Services Act, 2011*, housing providers are required to annually submit audited financial statements and a detailed operational report. Housing staff are updating this reporting process to ensure that a completed “Schedule C” is submitted annually for all housing providers participating in the loan program. The updated process will be established by the end of Q4 2016.

The Housing Services Branch is currently recruiting a new Chief Financial Officer, Director of Program Funding. The new Chief Financial Officer, Director of Program Funding will be charged with ensuring that Schedule A is updated for all existing loans and that administrative processes are established to ensure on-going compliance for all existing and future housing provider loans. Full program compliance is expected by Q4 2017.

## **4.2 Loan Program – Tracking & Management**

### **Observation**

Based on discussions with the Supervisor Housing Funding, who is responsible for tracking the loan program financial information, interest accruing on third party housing provider loans is not being calculated, tracked and/or reported to borrowers.

The loan program and additional subsidy financial information is currently being tracked using Microsoft Excel (excel). This financial information includes; loan advances (amount/date), fiscal repayment schedules, and annual segregated surplus funds for both interest bearing loans and non-interest bearing subsidies. While the loan program currently only includes 5 housing providers, this program is expected to continue to grow. Heavy reliance on excel creates the opportunity for inconsistent data if two or more versions of a document exist, and there is increased opportunity for errors to go undetected, especially the risk of errors in formulas and calculations.

Based on discussions with the Supervisor Housing Funding, there is a plan to develop an Integrated Housing Solutions system where all the financial information will be tracked. This would allow a direct connection to PeopleSoft as currently the loan information is a manual input into the PeopleSoft system.

### **Recommendation**

Management should ensure interest is calculated, tracked and reported annually to the housing providers.

Management should move forward with the development and implementation of the Integrated Housing Solutions software and move away from the reliance on excel.

### **Management Response**

Agreed. The new Chief Financial Officer, Director of Program Funding will be charged with ensuring that interest is calculated, tracked and reported annually as part of the administration of the Schedule A for all loan agreements. Full program compliance is expected by Q4 2017.

Housing Services staff are members of the governing body and the working group for the Integrated Housing Solutions software initiative. This software solution is intended to enable the Region to replace the current excel based program tracking systems. Software development is ongoing with system delivery expected in late 2017. System implementation is expected by Q3 2018.

### **4.3 Policies & Procedures – Loan Program**

#### **Observation**

There are currently no formally documented policies and procedures supporting the administration of the loan program. Based on discussions with the Supervisor Housing Funding, who is responsible for the overall loan tracking, including; housing provider financial reconciliations and advances, a change in staff for this position may present challenges in the transfer of knowledge without documented procedures in place.

#### **Recommendation**

Management should develop and implement formal policies and procedures for the administration of the loan program. This should include interest tracking and management – refer to issue 4.2 *Loan Program – Tracking & Management*.

#### **Management Response**

Agreed. The current loan process has evolved and documentation needs to be formalized and updated. Formal policies and procedures will be developed by Q4 2017.

### **4.4 “SHEEP” Flow through Funds – Program Management**

#### **Observation**

The following observations were noted during our review of the controls around the administration and management of the Sheep funds;

- 1) Funding Allocation Process: the request for the Expression of Interest in Sheep section 3 states that “*services managers who are selected to receive funding will then hold their own competitive selection process to identify suitable buildings and providers to be funded under the program.*” Based on discussions with the Director Housing Development & Asset Strategy, a formal competitive bid process was not used to select

the participating housing providers as there were a very small number of housing providers who met the Provinces eligibility criteria. The Region worked with housing providers based on the program eligibility criteria and priority of work required. The selected provider were then notified in writing of the funding and requested to respond agreeing to program participation. Management noted that the Region had a 3 week turnaround deadline to select the participating providers/work to be completed, and only a select number of providers/buildings qualified due to the strict eligibility criteria set for the program.

- 2) Reporting Requirements: the Transfer Payment Agreement with the province requires “the service manager to collect and maintain ongoing actual electrical energy use data in kilowatt hours of electricity for each participating eligible housing provider for the 3 years following the date of work completion”. As of audit fieldwork completion, this requirement had not been addressed with a plan developed to ensure we can report on the energy savings as required per the contract as the program was under development (note: the program was just released early this year and we were developing the requirements). Tenants are responsible for electrical bills and therefore the housing provider would have to gain approval to access the electricity bills. Without tenant approval to release this information after work has commenced, there is a risk of non-compliance with the provincial agreement.

#### **Updated Observation – as of July 13<sup>th</sup>, 2016**

A bulletin was issued on June 21<sup>st</sup>, 2016 to all housing providers explaining the Sheep funding program and eliciting additional interest to participate as per the program requirement to hold a competitive process.. Per the Director of Housing Development & Asset Strategy, there was no additional interest expressed and therefore no changes to the original funding allocation plan.

Per the Director Housing Development & Asset Strategy, a new funding program was recently announced and included \$5.5M (part of the \$18M for the investment in social affordable housing) granted to the Region for flow through. Housing Services plans to complete a formal application and evaluation process for the selection of participating providers, as the timing is more generous compared with that for Sheep.

#### **Recommendation**

Management should ensure the housing providers selection process for provincial flow through funds is in compliance with the provincial requirements for future programs.

Management should develop and implement a formal process to ensure the reporting requirements for the provincial flow through fund programs are met and in compliance with the Transfer Payment Agreement.

Management should strongly consider drafting a tenant waiver agreement to ensure access to the required electrical billing and usage data. The waiver could explain the benefits of Sheep and the requirement for sign off to participate.

Management should also ensure the draft agreement with the housing providers captures the applicable reporting requirements and consider including a clause in the agreement that grants the Region access to the electrical information on their behalf.

Management will need to determine the frequency of collecting this data, i.e. semi-annual, annual, to best meet the provincial agreement reporting requirements.

**Management Response**

Agreed. As part of the new federal and provincial funding, we are developing an application process along with evaluation guidelines for housing provider projects. This is expected to be completed in Q1 2017.

A tenant waiver agreement for the collection of electricity data will be a condition of the SHEEP agreements with the housing providers, and may include direct access to data from the local hydro company. This will be completed by Q1 2017.

## **4.5 Provincial Flow through Funds – Policies & Procedures**

**Observation**

There are currently no formally documented policies and procedures for the administration of government flow through funding programs supporting retrofits for social housing. A formal policy/process would better ensure program and contract compliance, and help to administer the program more efficiently and effectively. Refer to issue “4.4 Sheep Flow through Funds - Program Management” for specific examples of program administration improvements.

**Recommendation**

Management should develop a formal policy and process document for the administration of the government flow through funding programs. The policy should address the funding allocation process, reporting requirements and overall project work flow.

**Management Response**

Agreed. There have now been several different iterations of government flow through funding programs that have been managed on an individual basis. General policies and procedures will be developed by Q4 2017.

*Original signed by*

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**Rick Farrell**  
**General Manager – Housing  
Services**

*Original signed by*

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**Adelina Urbanski**  
**Commissioner – Community &  
Health Services**

*Original signed by*

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**Paul Duggan**  
**Director Audit Services**



***Material Recovery Facility -  
Contract Compliance - Audit  
Report***

***July 2016***



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## 1.0 Management Summary

Audit Services has completed an audit of contract compliance for the operations at the Material Recovery Facility (MRF). The contract is administered through the Environmental Services - Environmental Promotion & Protection Branch (ES – EPP) through Solid Waste Operations & Optimization.

The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

The scope of the audit included a review of the contract requirements outlined in the York Region Waste Management Centre Operating Agreement between York Region and Miller Waste Systems Inc.

The work performed included a review of requirements from the Operating Agreement, obtaining and reviewing required documentation (including ISO and Environmental Compliance Approval Provincial Requirements), on-site review at the facility to ensure operational compliance, and control testing of the Paradigm software used to monitor material received and processed at the MRF. Additionally, we performed detailed testing of a selected sample of payments made and received from Miller Waste Systems Inc. between June 1, 2015 to May 31, 2016.

Testing was conducted at a sufficient level of detail to allow us to evaluate both Miller Waste Systems Inc. and York Region's compliance with the Operating Agreement.

Overall, the results of our detailed testing indicate that both parties are in compliance with the Operating Agreement and that management controls over the payment process are working effectively. The relationship between York Region and Miller Waste Systems Inc. remains in good standing to ensure continued compliance.

Opportunities for internal control improvements were noted and discussed with appropriate management. These improvements relate to the collection and upkeep of contract required documents and monitoring contract compliance.

Should the reader have any questions or require a more detailed understanding of the risk assessment and sampling decisions made during this audit, please contact the Director, Audit Services.

Audit Services would like to thank staff in ES – EPP Solid Waste Operations & Optimization and Miller Waste Systems Inc. staff for their co-operation and assistance provided during the audit.

## **2.0 Introduction**

As part of our Audit Plan, Audit Services performed a contract compliance audit of the operations at the Material Recovery Facility (MRF). The Audit Plan, approved by the Audit Committee, is developed annually by the Audit Services Branch using a Risk Assessment Methodology that helps define the different risks associated with the various processes here at the Region. It is one tool used by Audit Services to assess where best to allocate audit resources.

The Solid Waste Operations & Optimization group plans, finances and delivers environmentally sound and fiscally responsible waste diversion and disposal services to ensure public health and safety. The Region owned Material Recovery Facility is used to process recyclable materials received via curbside collection from the local municipalities for sale to end markets. Additionally, the MRF receives source separated organics and solid waste from the Northern 6 municipalities. In 2005, the Region entered into an agreement with Miller Waste Systems Inc. to operate the MRF and market recovered materials on their behalf. The agreement was subsequently renewed in 2010.

Miller operates the facility in compliance with the ISO 9001:2008 standard. The operations at the facility are regularly reviewed by York Region staff to ensure the facility is maintained regularly, operating efficiently, and a reasonable effort is made to achieve the highest possible sales price for recovered material. The Environmental Compliance Approval (ECA) status is also monitored.

Audit Services reviewed the operations at the MRF by assessing compliance to the terms outlined in the York Region Waste Management Centre Operating Agreement between York Region and Miller Waste Systems Inc.

Additionally, we selected a sample of payments made and received from Miller relating to the operations at the MRF to ensure compliance with the terms of the agreement.

## **3.0 Objectives and Scope**

The main objectives of this engagement were to:

- Review the contract with Miller Waste Systems to operate the Material Recovery Facility (MRF).
- Determine whether work performed by, and payments made to Miller Waste Systems were in accordance to contract provisions.
- Review a sample of invoices and payments received from the Miller Waste Systems regarding the marketing of recoverable materials.

The audit objectives were accomplished through:

1. Discussion with management and staff relating to the operations at the Material Recovery Facility.
2. A site visit to the Material Recovery Facility.
3. A review of invoices and payments made to Miller Waste Systems.
4. A review of payments received from Miller Waste Systems for the marketing of recoverable materials on behalf of York Region.
5. A review of Environmental Services management and audit of the contract.
6. A review of related documentation.

## **4.0 Detailed Observations and Recommendations**

### **4.1 Certificate of Insurance**

#### **Observation**

The following observations were noted while reviewing the required Certificate of Insurance received from Miller Waste Systems Inc.:

- The York Region Waste Management Centre Operating Agreement requires an Umbrella – Liability coverage limit of \$8,000,000 inclusive. On the Certificate of Insurance obtained, there is no amount specified for Umbrella – Liability coverage.
- The agreement requires a coverage limit for Property (including Business Interruption Coverage) of “All Risks”. The Certificate of Insurance does not identify a limit for All Risk Property.
- The agreement states that “the certificates shall also evidence that insurers will provide 60 days’ written notice of cancellation or termination of any policy to the Region”. However, the Certificate of Insurance provided states that “If the insurance provided under the said policy (ies) is cancelled or if coverage is reduced, the Insurance Company will give (30) days’ written notice in advance by registered mail of such cancellation to ... (York Region Address – Attention: Legal Department)”.

#### **Updated Observation**

During the fieldwork portion of the audit, Management obtained an updated Certificate of Insurance addressing the requirements for the Umbrella-Liability coverage, as well as the Property (including Business Interruption) Coverage.

### **Recommendation**

Management should ensure that subsequent revisions to the Operating Agreement require 30 days' written notice of cancellation, which coincides with the standard insurance requirements for the Region. The current Certificate of Insurance is accepted, as it complies with Region standards.

### **Management Response**

Completion – Q3 2020.

As recommended, Management will ensure that subsequent revisions to the Operating Agreement require 30 days written notice of cancellation as opposed to the 60 day requirement in the current contract and to be consistent with the Region's standard.

## **4.2 Monitoring Contract Compliance**

### **Observation**

The following observations were noted during our review of how contract requirements are monitored:

- Section 2.01 (e) of the Operating Agreement states that Miller Waste is required to compact the Rear-Load Trailers to achieve a minimum annual (calendar year) average weight of 27 tonnes per Rear-Load Trailer and an average weight over the three previous calendar months on a rolling basis of 29 tonnes per Rear-Load Trailer.

Although our review did not identify these minimum requirements failed to be met, the annual average weight and three month rolling average is not monitored on an on-going basis.

- The spreadsheet used to monitor the gate-to-gate times, loading times, and rear-load compaction does not document the reason for unfavorable variances in the monthly averages.
- Schedule "D" of the Operating Agreement provides the Area Maintenance and Janitorial Services to be performed at the Material Recovery Facility and their required frequency.

During our on-site visits at the MRF, we observed that the facility is maintained in a cleanly manner. Miller Waste has personnel dedicated to maintaining the cleanliness of the facility.

However, through our discussion with Miller Waste Management, maintenance and janitorial services are not performed based on the Operating Agreement requirements. Also, the frequency of maintenance and janitorial service items outlined in the contract are not documented.

### **Recommendation**

To assist York Region in ensuring that the facility is operating in compliance with the Operating Agreement and identifying and following up on any issues in a timely manner, we recommend that:

- The spreadsheet used to monitor gate-to-gate times, loading times, and rear-load compaction is updated to include a three month rolling average for rear-load compaction tonnage to identify in a timely manner if minimum tonnage is not achieved (or trending in such a way that follow-up is required).
- The spreadsheet used to monitor monthly averages should be updated to document the reason for unfavorable variances. The ability to reference historical causes of any unfavorable variances can assist in identifying and correcting (if required) the issue in a timely manner.
- Miller Waste Systems implements a checklist based on Schedule “D” of the Operating Agreement for use by cleaning personnel to ensure all items are addressed and at their required frequency. The use of a checklist also provides documentation to support that cleaning services are being performed as per the Operating Agreement requirements.

### **Management Response**

Complete.

The referenced spreadsheet used to monitor gate-to-gate times, loading times and rear-load compaction has been modified to add a column where a three month rolling average for rear-load compaction tonnage will be recorded.

This spreadsheet has also been modified to provide a section for applicable comments such as unfavourable variances to assist in informing continuous improvement efforts at this facility.

Miller Waste Systems has introduced a checklist for use by cleaning personnel. The use of this checklist will provide documentation to help ensure cleaning services are being provided per the Agreement.

## **4.3 End Market Due-Diligence Review Forms**

### **Observation**

Section 3.03 (a) of the Operating Agreement states that Miller Waste shall make commercially reasonable efforts to sell the product to reliable, environmentally, and socially responsible end markets. To determine compliance with this requirement, Schedule “F” of the Operating Agreement is a due-diligence questionnaire for Miller to complete regarding the operations of the end-market buyer.

Since the buyer may be local or international, the due-diligence questionnaire ensures that the end market is legitimate, conforms to international labour laws, and evaluates what will happen to the material once it reaches the end market.

We selected a sample of due-diligence questionnaires from Miller Waste for review to ensure they are being completed and signed-off. 2 of the 9 forms reviewed (22%) did not have a signature validating who performed the due diligence review.

### **Recommendation**

The Operating Agreement states that the completed questionnaires shall be provided to the Region upon request. However, due to our finding that the forms are not always signed-off, we recommend that Miller Waste submits completed and signed questionnaires with monthly invoices for the applicable buyers that month.

### **Management Response**

Complete.

Miller Waste Systems has been directed to submit completed and signed due-diligence questionnaires with monthly invoices for all first time end markets. Regional staff will review these due diligence questionnaires to assess acceptability and ensure that the forms have been signed indicating who completed the due diligence review.

*Original signed by*

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**Erin Mahoney**  
**Commissioner of Environmental  
Services**

*Original signed by*

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**Laura McDowell**  
**Director – Environmental  
Promotion and Protection**

*Original signed by*

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**Paul Duggan**  
**Director Audit Services**



***Outstanding Audit  
Recommendations Follow up  
Audit Report***

***October 2016 Audit Committee***



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## 1.0 Management Summary

Audit Services has completed a follow up of outstanding audit recommendations at August 31, 2016. These recommendations are comprised of:

1. Audit recommendations that were noted as 'not yet completed' in our previous outstanding audit recommendations follow up audit report dated June 2016.
2. Any new audit report recommendations issued up to and including August 31, 2016.

There were 52 audit recommendations originally issued through the six audit reports currently on our list for follow up. Management has implemented 60% of these recommendations.

For this outstanding audit recommendations follow up report, there was one 'private' audit report with outstanding audit recommendations requiring update.

For a detailed summary of audit reports followed up and recommendations issued, completed and outstanding, please refer to section 4.0. Additional detail is available upon request from the Director, Audit Services.

## 2.0 Introduction

As part of our 2015 - 2018 Audit Plan, which accommodates various types of audit projects, consulting engagements, and follow up requests from Audit Committee and Management, the Audit Services Branch performed a follow up of outstanding audit recommendations. These recommendations included those noted as outstanding in our June 2016 audit recommendations follow up audit report, and all new recommendations issued in audit reports up to and including August 31, 2016.

The Audit Plan, approved by York Region's (the Region's) Audit Committee, is developed annually by the Audit Services Branch using a Risk Assessment Methodology that helps to define the different risks associated with the various processes here at the Region. It is one tool that Audit Services uses in assessing where best to allocate audit resources.

On a periodic basis, Audit Services updates the Region's Audit Committee and the Chief Administrative Officer (CAO) on the status of issued audit recommendations. To provide this update, Audit Services contacts Commissioners and Directors to confirm the status of the issued recommendation(s) relating to their area. In some cases, the status is further validated directly by Audit Services through discussions and / or detailed testing. This is an integral part of our audit process that allows us to confirm that the opportunities for improvement outlined in the audit report(s) have been implemented.

Department heads were e-mailed requests containing:

1. A summary of outstanding audit recommendation(s) for their area.
2. A request to provide a status update and a confirmation of the original due date for implementation of the recommendation, or a new anticipated implementation date if necessary.

3. As requested by Audit Committee in November 2008, departments having an audit recommendation outstanding that has an original due date older than one year provide Audit Committee with a separate report as to why the recommendation has not been implemented. Management action plans that detail what is being done to implement the recommendation(s) are to be included.
4. Finally, an Executive Sign-off Form, to be signed by the Commissioner and Director responsible for the implementation of the recommendation(s), was also sent.

Audit reports issued after August 31, 2016 will be followed up in the future.

### **3.0 Objectives and Scope**

The objective for this engagement was:

- To provide feedback to the Region's Audit Committee and CAO as to the disposition of issued audit recommendations.

The audit scope to accomplish this objective was:

- All outstanding audit recommendations issued prior to August 31, 2016.

#### **4.0 Detailed Observations and Recommendations**

##### **4.1 Detail Summary Statistics for Outstanding Audit Recommendations Followed Up**

- Table A summarizes the outstanding audit recommendations followed up for this review.
- Table B is a detailed summary of outstanding audit recommendations which were followed up for this review.
- PRIVATE: Table C summarizes the private outstanding audit recommendations followed up for this review.
- PRIVATE: Table D is a detailed summary of private outstanding audit recommendations which were followed up for this review.

**TABLE A – Summary of Outstanding Audit Recommendations Follow up as at August 31, 2016**

<b>Audit Report</b>	<b>Number of opportunities originally highlighted</b>	<b>Completed for 3/31/16</b>	<b>Completed for 8/31/16</b>	<b>Not yet complete</b>	<b>% Not yet complete</b>	<b>Date of Audit Report</b>	<b>Date Reported to Audit Committee</b>
Finance – Procurement Card	6	5	0	1	17%	May-13	Jun-13
TS – Roads Capital Delivery of Contract 10-103	16	15	0	1	6%	June-14	Jun-15
Revenue Management – Other revenue	9	3	3	3	33%	Dec-15	Feb-16
ES – Operation Maintenance and Monitoring	11	3	0	8	73%	Dec-15	Feb-16
FN – Accounts Payable & Procurement	6	0	2	4	67%	Apr-16	Jun-16
TS – Health & Safety on Capital Projects	4	0	0	4	100%	Apr-16	Jun-16
Totals	52	26	5	21	40%		

**TABLE B – Summary of Outstanding Audit Recommendations as at March 31, 2016**

<b>Audit Report</b>	<b>Recommendation</b>	<b>Management response</b>	<b>Original due date</b>	<b>Current due date</b>
Finance - Procurement Card	4.1 Procedures should be established to enable the Corporate Administrator to perform random audits. Specific focus should be made on suspense account transactions.	Done.	N/A	N/A
	4.2 Add a line to Procurement Card forms to require the authorizer to print their name.	Done.	N/A	N/A
	4.3 Ensure card holders sign for their card to ensure they understand and agree to Regional purchasing card policies.	Done.	N/A	N/A
	4.4 Department administrators should be reminded that failure to comply with purchasing card policy and procedures could result in card revocation.	Done.	N/A	N/A
	4.5 For employees who have not used their purchasing card in 6 months, Department Administrators should confirm to the Corporate Administrator that the card is still needed.	Done.	N/A	N/A
	4.6 Management re-examine the current control environment for procurement cards to determine if more efficient processes can be developed as enhancements to PeopleSoft progress.	Review of procurement card process has commenced as part of source to settlement project. Process improvement scheduled for implementation Q4 2016.	2017	Q4 2016

Audit Report	Recommendation	Management response	Original due date	Current due date
Transportation Services – Roads CDP	4.1 RCD should explore the benefits of automating the collection of project construction data at the field level and transmitting the data to the Region.	Done.	N/A	N/A
	4.2 RCD management should explore the use of SharePoint, Project Server and Essentials in the delivery of projects.	Done.	N/A	N/A
	4.3 RCD management should consider creating a Project Management Office (PMO).	Done.	N/A	N/A
	4.4 Section 16.4r, and 16.4s should be reviewed and updated if necessary. A formal payroll burden rate review process should be developed and implemented.	Done. Done.	N/A N/A	N/A N/A
	4.5 Finance should finalize the Draft Capital Closure Policy.	Policy has been endorsed by all departments and will be implemented as part of the 2016 year-end review process. Final approval to this policy is anticipated by Q4 2016.	Q4 2015	Q4 2016
	4.6 RCD should develop a formal process to guide changes in personnel to ensure continuity on projects.	Done.	N/A	N/A

Audit Report	Recommendation	Management response	Original due date	Current due date
	<p>4.7 Templates used to ensure that the management control structure is intact should not be modified. RCD management should perform a periodic review of the Change Order template with the assistance of Legal. All necessary procurement documentation that authorizes an individual to commit the Region to a purchase should be created and approved by management. Change Order instructions should be clarified with dollar thresholds</p>	<p>Done. Done. Done. Done.</p>	<p>N/A N/A N/A N/A</p>	<p>N/A N/A N/A N/A</p>
	<p>4.8 The proper use of Change Orders should be reiterated with staff.</p>	<p>Done.</p>	<p>N/A</p>	<p>N/A</p>
	<p>4.9 Information collection at source should be a goal of automation of data collection described in observation 4.1</p>	<p>Done.</p>	<p>N/A</p>	<p>N/A</p>
	<p>4.10 Future RCD contracts require submission of a current WSIB form every 90 days or with every payment certificate.</p>	<p>Done.</p>	<p>N/A</p>	<p>N/A</p>
	<p>4.11 I&amp;RM should be contacted to tailor a presentation to the Region's CAs and SIs regarding claims management through ICIPs.</p>	<p>Done.</p>	<p>N/A</p>	<p>N/A</p>
	<p>4.12 The CA assigned to the construction of a project should be requested to provide input into Design meetings on a periodic basis.</p>	<p>Done.</p>	<p>N/A</p>	<p>N/A</p>



Audit Report	Recommendation	Management response	Original due date	Current due date
	4.13 All capital projects should have a learnings document created and stored in a learning database to benefit future projects.	Done.	N/A	N/A
	4.14 RCD should review the form and content of the information currently provided to the SI.	Done.	N/A	N/A
	4.15 One file used to track issues and resolutions during the design stage can be updated as necessary and provides a history that can be a source for a learnings database.	Done.	N/A	N/A
	4.16 RCD management should ensure that the boxes are processed per the Region's Records Retention By-law and stored off-site.	Done.	N/A	N/A
Revenue Management - Other Revenue	4.1 Transportation Services Transportation Services management should ensure that a detailed process map is created for this function, which can be used as a reference for cross training and for succession planning, and that a resource is assigned to be cross trained in this role.	Done. Detailed process map is completed. Temporary resource hired and being trained.	N/A	N/A
	4.2 Transportation Services Review the claims process to determine where time can be saved and the process shortened from 304 days to improve the timeline for the recovery of funds.	Done. Review of processes has been completed and actions taken to reduce timelines wherever possible. Overall timeline is driven by multiple stakeholders. TRN staff will continue to work with other stakeholders and explore opportunities for improvement such as automating the workflow.	N/A	N/A

Audit Report	Recommendation	Management response	Original due date	Current due date
	5.1 Community & Health Services Funds being deposited should be counted by two people, and the bank deposit slip prepared at the same time. Both individuals should sign the deposit slip as it provides an audit trail.	Done.	N/A	N/A
	5.2 Community & Health Services Should ensure that private information is not included with journal entries and invoice requisitions sent to Finance for processing. In its place, a clearly visible note with the location of why the information was not included and where it could be found should be used.	Done.	N/A	N/A
	6.1 Finance <ul style="list-style-type: none"> <li>• Ensure that supporting documentation is included with invoice requisitions.</li> <li>• Review and update the Collection of Accounts policy to:               <ul style="list-style-type: none"> <li>○ Include the requirement for supporting documentation to help ensure calculations are correct, timely and to the correct client.</li> <li>○ Make any other updates to the Policy as deemed necessary.</li> </ul> </li> </ul>	Done.  Collection of Accounts Policy updated to include supporting documentation. Final approval to this policy is anticipated by Q4 2016.	N/A  Q3 2016	N/A  Q4 2016
	7.1 Finance & Environmental Services Put into motion a plan to resolve older recurring journal entries and available funding.	Environmental Services and Corporate Finance are on schedule to complete a review on the funding of all open capital projects and fully fund and close out any completed projects by the end of Q4 2016. The Nobleton WPCP security in the amount of \$317,165 has been released.	Q4 2016	Q4 2016

Audit Report	Recommendation	Management response	Original due date	Current due date
	8.1 Finance Implement the automation of dunning letters to save on valuable resource time and help ensure the negative impacts to cash flow are minimized.	Automation of dunning letters is scheduled to be implemented Q4 2016.	Q4 2016	Q4 2016
	9.1 Finance Review the invoice requisition process to determine if the standard five day invoice requisition processing time remains valid, or whether the standard should change.	Done. Processing timelines have been reviewed and adjusted to reflect the current ten day practice.	N/A	N/A
	9.2 Regional Clerk's Office Should update the Schedule of Fees and Charges in both sections on the intranet.	Done.	N/A	N/A
Environmental Services – Operations Maintenance & Monitoring	4.1 OMM work with IAM to resolve the noted asset inventory discrepancies.  OMM continue updating the protocol used to identify assets needed to be entered into MAXIMO from an asset maintenance perspective.	Project plan to update the preventative maintenance program and correct asset inventory discrepancies for process equipment is on track.  Time line for completion was extended due to reflect appropriate asset management principles by aligning asset hierarchies by process areas, rather than asset location.	Q4 2019  Q4 2016	Q4 2019  Q2 2017

Audit Report	Recommendation	Management response	Original due date	Current due date
	<p>4.2 OMM continue with the implementation of an input screen to help in updating the MAXIMO inventory base whenever it changes.</p> <p>OMM should also perform a full inventory of all their MAXIMO assets to establish a baseline of actual assets within each facility.</p> <p>OMM should develop and implement annual inventory verification routines that spot check an acceptable level of asset inventory using ‘book to floor’ and ‘floor to book’ asset verification.</p>	<p>Done.</p> <p>Project to correct asset inventory discrepancies for process equipment is on track.</p> <p>Done.</p>	<p>N/A</p> <p>Q4 2019</p> <p>N/A</p>	<p>N/A</p> <p>Q4 2019</p> <p>N/A</p>
	<p>4.3 Spare parts inventory program create detailed plans and process flows to help ensure that management controls over the inventory are sufficient.</p>	<p>Work is on track.</p>	<p>Q2 2016</p>	<p>Q4 2016</p>
	<p>4.4 The backlog listing should be reviewed:</p> <ol style="list-style-type: none"> <li>1. To determine which codes are required and who may require them.</li> <li>2. Reiterate to all MAXIMO users the proper protocols for entering a Level code, with particular attention to Level 5 codes.</li> <li>3. Reiterate to all MAXIMO users the importance of descriptions to help schedule work order assignment to mechanics and electricians.</li> <li>4. Reiterate to all MAXIMO users the importance of timely resolution of the work –order in MAXIMO.</li> <li>5. Determine the required work necessary to complete this work order.</li> </ol>	<p>Done.</p> <p>Management has reviewed list of work code statuses and will incorporate list into MAXIMO upgrade. Items 2-5 to be addresses as part of training for the upgrade.</p>	<p>N/A</p> <p>Q2 2016</p> <p>Q2 2016</p> <p>Q2 2016</p> <p>Q2 2016</p>	<p>N/A</p> <p>Q4 2016</p> <p>Q4 2016</p> <p>Q4 2016</p> <p>Q4 2016</p>

Audit Report	Recommendation	Management response	Original due date	Current due date
	<p>4.5 Tablets which are not needed by the current user to provide desktop or laptop computer functionality will be reassigned. A redeployment plan will be developed in Q1 2016.</p>	<p>Strategy to address was revised: detailed review of tablet usage across OMM (Q2 2016) and an OMM mobile work plan (strategy and implementation plan included) to be developed by Q4 2016.</p>	Q1 2016	Q4 2016
	<p>4.6 For some types of work orders, predominantly level 1 thru 4, a triage system should be piloted to determine if tradespersons could be more effectively and efficiently dispatched to perform their work.</p>	<p>Triage system is impractical for geographical reasons. Work type consolidation is to be completed with implementation of MAXIMO version 7.6 upgrade.</p>	Q2 2016	Q4 2016
	<p>4.7 OMM management should continue constructing and finalizing an input page to be used by tradespersons in the field.</p>	<p>Implementation of redesigned view to be implemented with MAXIMO version 7.6 upgrade.</p>	Q3 2016	Q4 2016
	<p>4.8 Consultants contracted to provide complete and accurate asset information should be held accountable for incomplete and erroneous asset information.</p> <p>Explore the possibility to recoup the cost of having to review and correct any new asset information entered by consultants.</p>	<p>RFP for consultant issued in April 2016 for an updated asset tagging protocol to make asset tagging easier, and, more accurate and consistent.</p> <p>OMM and CPD management to develop a plan to ensure consultants are held strictly to the updated Section 21 Design Guidelines, with financial remedies.</p>	Q4 2016  Q4 2016	Q2 2017  Q4 2016
	<p>4.9 OMM management ensures that any future contracts issued for tender follows the Surety Bond Policy and associated procedures.</p>	<p>Done.</p>	N/A	N/A
	<p>4.10 A current, blanket COI should be collected by Finance – Insurance &amp; Risk for the contractor executing the diesel generator maintenance.</p>	<p>Done.</p>	N/A	N/A

Audit Report	Recommendation	Management response	Original due date	Current due date
	<p>4.11 OMM management should arrange for preventative maintenance to be performed on the portable diesel generators as per the contract with the contractor responsible for this work.</p> <p>Missing documentation should be investigated and collected to help ensure that all equipment is being maintained as per the standards followed.</p>	<p>Done.</p> <p>Done.</p>	<p>N/A</p> <p>N/A</p>	<p>N/A</p> <p>N/A</p>
Finance – A/P & Procurements	<p>4.1 Consider implementing a stamp for departments to use for invoice approval / general ledger coding.</p> <p>Reiterate to staff the requirement for segregation of duties between purchase commitment and payment authority.</p>	<p>Stamp in process of development.</p> <p>Proposed revision of Policy includes segregation of duties between purchase and payment authorization.</p>	<p>Q3 2016</p> <p>Q4 2016</p>	<p>Q3 2016</p> <p>Q4 2016</p>
	<p>4.2 Tender Bid Request Form is updated to clarify the requirement for advertising in the DCN.</p> <p>Consider implementation of an electronic procurement filing system to reduce likelihood of misplacing key documents, and, create a more consistent standard file set-up.</p>	<p>Done.</p> <p>Done.</p>	<p>NA</p> <p>NA</p>	<p>NA</p> <p>NA</p>
	<p>4.3 A formal process be developed to ensure compliance with the policy of annual reviews of designated authorities.</p> <p>Department heads perform annual review of the designated approval authorities and report results to Finance for updates.</p>	<p>Done. Finance has re-emphasized to departments to conduct annual reviews of approval authorities.</p> <p>In conjunction with the update to the Authorization for Payments of Goods and Services Policy, forms will be automated and tracked to improve form administration and compliance.</p>	<p>NA</p> <p>Q4 2016</p>	<p>NA</p> <p>Q4 2016</p>

Audit Report	Recommendation	Management response	Original due date	Current due date
	<p>4.4 Compare all NSA forms to purchasing course training records. Where the course has not been attended, a deadline established for attendance. If not attended, the NSA form should be revoked.</p> <p>NSA form should include the requirement for attendance to the purchasing training course and employee statement that the course was attended or scheduled attendance.</p>	<p>Done. Reinforced the requirements to complete the Purchasing course with the departments.</p> <p>The form will be modified to include a checkbox that states a pre requisite for completion of the Purchasing training course prior to the approval of signing authority.</p>	<p>NA</p> <p>Q4 2016</p>	<p>NA</p> <p>Q4 2016</p>
	<p>4.5 Authorization of Payment of Goods and Services Policy is updated to clarify approval limits for Project Managers, include the segregation of duties between purchase commitment and payment approval.</p> <p>Purchasing Tool Kit be updated to clearly identify the requirement for a purchase order for purchases above a specified dollar limit.</p>	<p>Update to Policy is in process.</p> <p>A Policy will be formulated to identify circumstances that warrant the issuance of a purchase order as part of the Purchasing By-law update.</p>	<p>Q4 2016</p> <p>Q3 2017</p>	<p>Q4 2016</p> <p>Q3 2017</p>
	<p>4.6 Perform a thorough review of the purchase orders identified as having errors and omissions and correct them in the system.</p> <p>Perform an annual review of unused purchase orders beyond a certain age to identify instances where invoices are being processed without being applied to a purchase order or directly to a general ledger account.</p>	<p>Done. Operating departments have been engaged in the review of the identified purchase orders.</p> <p>Done. Finance will perform an annual year-end review starting in 2016 to identify instances of invoices paid without purchase orders.</p>	<p>NA</p> <p>NA</p>	<p>NA</p> <p>NA</p>

Audit Report	Recommendation	Management response	Original due date	Current due date
Transportation Services – Health & Safety on Capital Projects	4.1 TS – Capital Planning & Delivery ensure H&S documentation is collected as required by the Contractor / Constructor Safety Policy & Guide	A template tender document will be updated and the checklist created and added to the CPD Construction Toolkit.	Q3 2016	Q4 2016
	CS - Human Resources update the Contractor / Constructor Safety Policy & Guide	It is estimated that the review and approval process will be completed in Q2 2017	Q2 2017	Q2 2017
	4.2 TS – Capital Planning & Delivery ensure that the performance of a field audit is captured in all bi-weekly meetings and followed-up for any future dated resolutions.	To ensure that H&S audit related documentation is maintained, a separate section will be added to the Project Management File checklist for Stage 5 – Construction. Sign off will be required by the PM, Manager Engineering, rep from the PMO.	Q3 2016	Q4 2016
	4.3 TS – Infrastructure Management and PMO continue to work towards a workable project file solution.	Work is continuing as planned. IMPMO is currently increasing the rigour, automation and process control on all aspect of CPD. H&S documentation will be included. Work continuing as planned.	Q4 2017	Q4 2017
	4.4 Implementation of the CityWorks permit application to reduce the risk of the Region becoming a Contractor through incorrectly issued road permits	Due to an unforeseen circumstance of the project lead being away from work, the implementation date of CityWorks has been pushed forward.	Q3 2016	Q4 2016